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ABSTRACT

This report describes the activities, accomplishments, and concerns of the Office of Inspector General, U.S. Department of Education, for the 6-month period ending March 31, 2000. The report describes management challenges concerning student financial assistance, including instances of fraud and abuse, concealment of prior defaults, patterns of fraud, information concerning audits and nonfederal audits, higher education programs, financial management and internal controls, and department programs in elementary and secondary education. (Appendices provide a statistical profile, collections from audits and investigations, information regarding investigation services, cumulative prosecutive actions, and information regarding uncompleted corrective action.) (DFR)

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U.S. Department of Education

Office of Inspector General

Semiannual Report to Congress

No. 40

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October 1, 1999 – March 31, 2000

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U.S. Department of Education

Office of Inspector General

Semiannual Report to Congress

No. 40

October 1, 1999 — March 31, 2000

UNITED STATES DEPARTMENT OF EDUCATION

OFFICE OF INSPECTOR GENERAL

THE INSPECTOR GENERAL

May 15, 2000

Honorable Richard W. Riley
Secretary of Education
Washington, DC 20202

Dear Mr. Secretary:

I am pleased to submit this semiannual report on the activities of the Department's Office of Inspector General (OIG) for the six-month period ending March 31, 2000. The report was transmitted to you and Department senior officers for review on April 28, 2000 in accordance with section 5 of the Inspector General Act of 1978 (Public Law 95-452, as amended). The Act requires you to transmit this report by May 30, 2000 to the appropriate congressional committees and subcommittees, together with a report containing any comments you wish to make; statistical tables as specified in section 5(a)(13)(b)(2) and (3); and a statement with respect to audit reports on which management decisions have been made but final action has not been taken, as specified in section 5(a)(13)(b)(4).

The enclosed report presents this office's activities, accomplishments, and concerns during the period covered. I testified several times before congressional committees and subcommittees this period. These testimonies described the most critical challenges facing the Department and our recommendations to address them, as well as the Department's success in meeting them or need to take further action.

We responded this period to a request from House Majority Leader Armey, Senators Thompson and Domenici, and Representatives Burton and Kasich for an assessment of the management challenges facing the Department. In my response, I noted that many of the challenges facing the Department involve long-term issues that we continue to monitor.

400 MARYLAND AVE., S.W. WASHINGTON, D.C. 20202-1510

Our mission is to ensure equal access to education and to promote educational excellence throughout the Nation.

One of the most critical challenges to the Department is its preparation of and access to accurate financial data. This information is key to the Department's ability to make informed decisions, manage for results, and ensure the integrity of its operations. The Department is making important improvements in its process for preparing financial statements, and we are encouraged by management's efforts to actively monitor and address open audit recommendations to ensure their effective resolution.

Management has responded in a positive manner to our recommendations for preventing the improper discharge of student loans. We note that important interim steps are being taken to address our findings and recommendations. If successful, these efforts will help significantly to ensure that only eligible borrowers receive loan discharges. We are specifically recommending that the Congress pass any necessary additional legislation to address this matter.

The OIG is committed to carrying out its legislative mandate to identify fraud, waste, and abuse, and to recommend appropriate corrective actions. I look forward to continuing to work together with you and Department managers to ensure that Education Department programs and operations serve the nation's students and taxpayers with efficiency, effectiveness, and integrity.

Sincerely,

Lorraine Lewis

Lorraine Lewis

Enclosure

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INSPECTOR GENERAL'S MESSAGE TO CONGRESS

This period, in the financial management area, the Department of Education for the first time was able to issue its audited financial statements on deadline. There were four material weaknesses included in the Report on Internal Control for both the Department and Student Financial Assistance (SFA) and reportable conditions for both. The Department has undertaken efforts and initiatives to improve its process for preparing financial statements.

A recent amendment to GOVERNMENT AUDITING STANDARDS *requires the OIG to communicate with legislative members who have oversight of the auditee when the financial statement audits are performed pursuant to law or regulation. We have contracted with an independent accounting firm to perform the fiscal year 2000 financial statement audits of the Department and SFA. The OIG will perform an oversight role on each audit. The objectives of the audits include reporting on the annual financial statements, the internal controls, and compliance with laws and regulations. The audits will be performed in accordance with* GOVERNMENT AUDITING STANDARDS *and guidance issued by the Office of Management and Budget, and will be completed by the March 1 deadline.*

We are pleased to report the success of the Department's efforts to ensure its programs' readiness for the Year 2000. This success was due to a concerted effort by the Department, with technical assistance by our office in evaluating progress, identifying high-risk areas, and providing information on the status of its trading partners. Computer security is another high risk in the information technology area. In a report this period, we advised the Department of significant control weaknesses that threaten the security of its financial management and other mission-critical systems, and provided recommendations that, if implemented, will greatly enhance that security.

In the last few years, the OIG has become increasingly aware of the need to focus additional attention on Department operations. This period the OIG reorganized to provide us with more flexibility in using our resources. One of the major changes is the creation of two new groups to focus on Department operations. The first group, the Analysis and Inspection Services, is responsible for conducting quick management reviews that do not require a traditional audit. A second group, which we are in the process of establishing, will be an internal audit staff that we will use to audit the Department's management operations and analyze problems that require the special expertise auditors possess.

I would like to take note of the appointment of our former Assistant Inspector General for Audit, Steven A. McNamara, as Inspector General for the House of Representatives. I know that Mr. McNamara will serve the House well.

This Office is unequivocally committed to the OIG mission to identify fraud, waste, and abuse relating to Department operations and programs, and to recommend appropriate corrective actions to address the problems we find. I look forward to continuing to work with the Department and the Congress, as we seek to ensure the economy, efficiency, effectiveness, and integrity of Education programs and operations.

MANAGEMENT CHALLENGES

This period, the Office of Inspector General (OIG) responded to a joint House and Senate request for an assessment of the management challenges facing the Department of Education (ED, or the Department). Our response provided a description of these challenges and the work the Department is doing, or needs to do, to meet them. (Appendix 1 lists these challenges.)

The Inspector General testified before Congress on four separate occasions during the reporting period. On two of these occasions, the Inspector General spoke of the challenges facing the Department. Highlights of the testimonies and related OIG initiatives during the period follow.

Department Operations

FINANCIAL MANAGEMENT AND INTERNAL CONTROLS

A top priority for the Department of Education, and one of its most significant challenges, is its preparation of and access to accurate financial data. This information is critical for the Department to make informed decisions, manage for results, and ensure the integrity of its operations.

Financial Statement Audits

We issued three financial statement audits during this reporting period. The financial statement audits issued were the Department's consolidated financial statement audit for fiscal year 1998, the Department's consolidated financial statement audit for fiscal year 1999, and the Student Financial Assistance financial statement audit for fiscal year 1999.

TESTIMONY ON FINANCIAL AUDITS

In November 1999, the results of the Department's fiscal year 1998 financial statement audit were transmitted to the Department. In December 1999, the Inspector General testified before the Subcommittee on Oversight and Investigations of the Committee on Education and the Workforce and reported that the Department received a disclaimer of opinion on those financial statements, in part due to weaknesses with the financial system. The weaknesses included the system's inability to perform a year-end closing process or produce automated consolidated financial statements. In addition, the Department did not adequately perform reconciliations and could not provide sufficient documentation supporting transactions.

In testimony before the House Budget Committee in February 2000, and before the Subcommittee on Oversight and Investigations of the Committee on Education and the Workforce in March 2000, the Inspector General reported on the status of the Department's financial statement audit for fiscal year 1999.

FINANCIAL STATEMENTS ISSUED ON DEADLINE

This year, for the first time, the Department was able to issue its audited financial statements to the Office of Management and Budget by the March 1 deadline. The audit,

conducted by Ernst & Young, LLP (E&Y) under contract with ED/OIG, resulted in a qualified opinion for both ED and Student Financial Assistance (SFA) on the Consolidated Balance Sheets, Statements of Changes in Net Cost, Statements of Changes in Net Position, and the Combined Statements of Budgetary Resources. E&Y disclaimed an opinion for both ED and SFA on the Statements of Financing. This was the first year SFA, as a performance-based organization of the Department, prepared and had its statements audited.

AUDITORS NOTE MATERIAL WEAKNESSES

There were four material weaknesses included in the Report on Internal Control for the Department and for SFA. In addition, four reportable conditions were included in the report for the Department and three in the report for SFA. The material weaknesses, the first three of which were repeat conditions, were:

- Financial Reporting Needs to Be Strengthened;
- Reconciliations Need to Be Improved;
- Controls Surrounding Information Systems Need Enhancement; and
- Improvement of Credit Reform Reporting is Needed.

The Report on Compliance with Laws and Regulations for both ED and SFA cited three areas of non-compliance. The areas cited for non-compliance were with:

- the Information Technology Management Reform Act (Clinger-Cohen Act);
- the Federal Credit Reform Act of 1990; and
- the Federal Financial Management Improvement Act.

The Department is making important improvements in its process for preparing statements by, among other things, preparing quarterly statements and monthly data reconciliations. ED has begun an initiative to more actively monitor and address all open audit recommendations to ensure that effective corrective actions are taken. In addition, the OIG is recommending that ED track and resolve non-audit recommendations. Much work remains to be done. We will work closely with ED and the Congress to monitor the progress of the Department and SFA.

INFORMATION SYSTEMS AND SECURITY CONTROLS

In fiscal year 1997, we created a systems internal audit group within OIG to provide oversight of efforts related to the Department's systems development and implementation. OIG has developed a three-tiered audit strategy for addressing these systems. Audit engagements are selected based upon their support of three management concerns: IT Investment Management, IT Systems Development Management, and IT Operations Management. In addition to performing selected audits, the systems internal audit group monitors the major systems within the Department and provides on-going advice and assistance to Department officials.

This period we continued to monitor progress, provide technical assistance, and identify high-risk areas related to the Department's preparations for the Year 2000. We also continued to monitor SFA's development of its Modernization Blueprint for information systems, and completed an audit of the Department's security posture, policies, and plans for its 14 mission-critical systems.

DEPARTMENT'S Y2K EFFORTS ARE SUCCESSFUL

This period, in testimony before the House Budget Committee, the Inspector General reported that the Department's efforts to ensure its programs' Y2K readiness were successful. This success was accomplished through a concentrated effort on the part of the Department, including technical assistance from our office. The OIG contributed to the Department's success by evaluating its progress, identifying high-risk areas, and providing information on the status of its major trading partners. The Department's commitment resulted in there being no interruption in its information systems, and no loss of data from its computer systems.

SECURITY CONTROL WEAKNESSES NOTED

A recent OIG audit on the Department's security posture, policies, and plans for its 14 mission-critical systems *(ACN: ED-OIG/A11-90013, issued February 25, 2000)* revealed that the Department has significant control weaknesses. They include a lack of security plans and reviews for six mission-critical systems, no process to ensure resolution of identified security deficiencies, and a lack of technical security training for many employees responsible for overseeing the Department's computer security. The absence of these controls heightens the risk that those Department systems and data are vulnerable to security threats. Implementing our recommendations will enable ED to greatly enhance the security of its financial management and other mission-critical systems.

Department Programs

ELEMENTARY AND SECONDARY EDUCATION

Combining Funds in Schoolwide Programs

Title I of the Elementary and Secondary Education Act allows a local education agency to combine most federal education funds in schoolwide programs in order to upgrade the entire educational program in an eligible school.

FISCAL FLEXIBILITY

This period we issued "Combining Funds in Schoolwide Programs" *(ACN: ED-OIG/A04-90008, issued March 29, 2000)*, which found that schoolwide programs are not taking advantage of that fiscal flexibility. Despite the Department's efforts to provide guidance to state and local education agencies, some local education agencies did not always know about the flexibility or did not feel they had sufficient guidance to implement the flexibility. Also, some states reported that their accounting policies and procedures and some state laws do not allow funds to be combined. In addition, some federal requirements that are designed to maintain accountability may be barriers to combining funds. Further, some local education agency officials felt that state and independent auditors may not always be aware of how to audit federal funds that are combined in schoolwide programs. The Department generally agreed with our findings and recommendations.

Single Audit Pilot Project

The OIG, in conjunction with the Office of Elementary and Secondary Education (OESE), is participating in a Single Audit and Oversight Pilot Project.

PROJECT AIMED AT MAKING BETTER USE OF SINGLE AUDITS

The OIG performed a survey in May 1998 that found that states are not systematically analyzing the results of local educational agency audits to identify trends in findings, and develop monitoring and technical assistance strategies to reduce the occurrence of similar problems. As a result, the OIG and OESE initiated a pilot project with four states to make better use of Single Audits as a tool to provide improved oversight and guidance to maintain proper internal controls, follow program objectives and procedures, and correct recurring audit findings. The pilot project will also address training for auditors in Department program requirements and flexibility that will be designed to obtain more effective and useful audits. The initial meeting with the pilot states was held in November 1999.

2000 National Title I Conference

The OIG and the Department's Office of Elementary and Secondary Education (OESE), Office of the Chief Financial Officer (OCFO), and the Office of the General Counsel (OGC) conducted a series of sessions at the National Title I Conference in San Antonio, Texas in January 2000. OCFO staff presented sessions on the Cooperative Audit Resolution and Oversight Initiative and cost allocation and time distribution. OGC staff presented sessions on combining funds in schoolwide programs and state and local flexibility in current statutes. OIG staff presented a joint session with OESE on the Single Audit and Oversight Pilot Project (see above). OIG staff also presented sessions on the Single Audit process and an overview of the audit process with an emphasis on OIG audits.

HIGHER EDUCATION PROGRAMS

Creighton University's Administration of its Federal TRIO Projects

This period, we issued an audit report "Audit of Creighton University's Administration of its Federal TRIO Projects" *(ACN: ED-OIG/A07-80027, issued March 31, 2000)*.

RETURN OF TALENT SEARCH GRANTS RECOMMENDED

We found that Creighton University could not support that services were rendered to the number of participants reported to the Department as served by its Upward Bound, Upward Bound Math and Science, and Talent Search projects. Creighton University also did not fill, or fill timely, key positions in the administration of its TRIO projects in accordance with federal regulations. In addition, Creighton University did not adhere to management controls in the areas of accounting for travel expenses, reconciling budgets to actual expenditures, documenting student citizenship, and inventory. We found that the administration of the Talent Search project was so deficient, we recommended that Creighton University return $303,018, the entire amount of the Talent Search grants for the 1996-97 and 1997-98 award years. Creighton University did not agree with all of our findings and recommendations.

VIRGIN ISLANDS GRANT CONDITIONS

The OIG worked with the Department on a number of conditions placed on fiscal year 2000 grants awarded to the Virgin Islands. The conditions were placed on the grants as a result of a number of concerns raised by the Department's program offices and the lack of Single Audits.

VIRGIN ISLANDS FAILS TO MEET CONDITIONS

The OIG and representatives from the Department's Office of Intergovernmental and Interagency Affairs, Office of the Chief Financial Officer, Office of the General Counsel, and various program offices have participated in a series of meetings with representatives from the Virgin Islands to discuss the Virgin Islands' progress toward meeting the grant conditions. The team visited the Virgin Islands to meet with the Governor and the Commissioners of Finance, Education, and Health to discuss the Virgin Islands' progress toward meeting the grant conditions by the March 30, 2000 due date.

The team also discussed options the Department was considering if the conditions were not met. In addition, the team met with representatives of the Department of the Interior (DOI) OIG, received background information and observations from DOI OIG's audit work, and discussed the results of the Department of Education visit.

The Virgin Islands did not meet the specified conditions by the March 30 deadline. As a result, the Department imposed appropriate conditions on releasing Department funds to the Virgin Islands.

GOVERNMENT PERFORMANCE AND RESULTS ACT

Collecting Data and Reporting it to ED

This period we issued an information report *(ACN: ED-OIG/S17-90009, issued March 29, 2000)* on the process state educational agencies (SEAs) use to collect and report specific kinds of data. The Department uses the data to monitor and evaluate SEA programs, as well as in the annual performance report to Congress required by the Government Performance and Results Act (GPRA). The OIG sees the Department's need to obtain quality data to measure the performance of its programs and to meet GPRA requirements as a significant challenge for the Department, and has included it among the management challenges facing the Department.

OBSERVATIONS ON SEA DATA COLLECTION

Our review focused on two of the Department's major formula grant programs: Grants for Schools Serving At-Risk Children (Title I) and Vocational and Technical Education Assistance to the states (Perkins). Based on work performed at the Department and at five SEAs, we made the following observations.

- The process of collecting data is complex. The data comes from several sources.
- Each SEA has its own unique process for collecting data, as well as a unique control structure. The method of collecting data from local education agencies varied.
- Most of the states did not submit their data on time.
- The data may not be consistent over time.
- When used for national aggregation or comparison, the data are not likely to be comparable across states.

The flexibility ED provides to states and local education agencies can affect data collection. Improvement in data quality and timeliness may require new systems. Designing, building, and maintaining systems requires significant human and financial resources.

STUDENT FINANCIAL ASSISTANCE

Modernization Blueprint

The Inspector General responded this period to a joint request by the House Majority Leader, with Senators Thompson and Domenici and Representatives Burton and Kasich, for an assessment of the management challenges facing the Department.

BLUEPRINT PRESENTS UNIQUE CHALLENGES

In her response, the Inspector General stated that implementation of the third draft of the "Modernization Blueprint" presents several unique challenges. These include:

- the potential that Student Financial Assistance's (SFA) current and future business problems may not be adequately defined, leading to the potential for increased cost and complexity;
- the need to continually assess viable alternatives to ensure cost effectiveness; and
- the possibility that the impact of external factors may be understated, technical challenges may not be sufficiently appreciated, the project timetable may be unrealistic, and sufficient resources to complete the effort may be unavailable.

We expressed our concern that the Blueprint's vision of "buy a little, test a little, fix a little" may be unworkable. We discussed our concerns in meetings with SFA officials and SFA Blueprint contractor staff. We will continue to monitor and advise SFA on the development and implementation of the Blueprint.

Preventing Ineligible Recipients from Receiving Student Aid

A significant concern for the Department is student aid applicants (and their parents) who under-report their income in order to receive student Pell grants to which they are not entitled. Our audit and investigative work has shown this to be a problem that is costing federal taxpayers millions of dollars annually in overawards of Pell grants and awards to ineligible recipients.

APPLICANT INCOME DATA NEEDS TO BE VERIFIED

The Higher Education Act Amendments of 1998 (HEA) included, as recommended by our office and fully supported by the Department, a provision that would authorize the Department to confirm applicant income data with Internal Revenue Service (IRS) records for the purpose of verifying the information. According to the Treasury Department, current law does not permit the IRS to release individual income information to ED without written taxpayer consent. As of the end of the reporting period, the Department, Treasury, and the Office of Management and Budget were working to resolve this central issue.

We recommend that the Congress enact any necessary additional legislation to address this matter.

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INTERIM MEASURES ARE UNDERWAY

In the interim, the Department and the IRS began the first of two planned test-match statistical studies at the end of the reporting period. The data match should provide the Department with statistical data on the types of misreporting.

Fraudulent Disability and Death Loan Discharges

Another concern in the SFA area is the inappropriate discharge of student loans based on disability or death. As reported in our last semiannual report (*Semiannual Report No. 39*, page 6), our audit, issued in June 1999 and performed at the request of Student Financial Assistance, found that borrowers who received disability discharges totaling more than $73 million were earning wages. Borrowers who received death discharges had more than $3.8 million in loans discharged, according to the Social Security Administration's master earnings file.

In response to our recommendations, the Department this period revised the disability form to include, at a minimum, the doctor's professional license number and office telephone number. In addition, the Department now requires that a death discharge be based only on an original or certified copy of the death certificate.

Investigative efforts this period led to one indictment charging fraudulent disability discharges of $59,540, one sentencing for a fraudulent disability discharge of $37,743, and more than $1 million in fraudulently discharged loans being reinstated to 41 borrowers.

Cohort Default Rate Understated

This period we released a final audit report titled "Changes in the Computation of Cohort Default Rates Would Make Rates More Accurate" (*ACN: ED-OIG/A06-70006, issued March 31, 2000*). The report noted that, based on the Department's longstanding interpretation and implementation of the default provisions of the Higher Education Act, official cohort default rates are understated. As a result, schools with high default rates are not being identified because not all borrowers who meet the statutory definition of a defaulter during the cohort period are included in the default-rate computation.

16 SCHOOLS WOULD HAVE LOST ELIGIBILITY

Our analysis of loans included for the 1994 cohort period disclosed that an additional 115 schools would have reached the 25 percent default-rate threshold if claims paid during the three months following the end of the cohort period were considered. The 115 schools included 16 that would have reached or exceeded a 25 percent rate for three consecutive years and lost eligibility to participate in the Federal Family Education Loan and Direct Loan Programs. The 16 schools received about $18.2 million annually in federal loan funds.

ADDITIONAL AUDIT WORK PERFORMED IN RESPONSE TO DEPARTMENT'S COMMENTS

In commenting on the draft of this report, the Chief Operating Officer (COO) for SFA agreed that it was necessary to support strong student default-prevention measures to protect the government from the costs associated with high rates of default. However, the COO did not agree with our recommendations for changes in computing default rates.

Before finalizing the report, we performed additional audit work, including an analysis of the 1996 cohort data. The analysis supported our conclusion that the majority of claims

are for loans that defaulted in the previous period. Cohort default rates also are a key performance indicator in the Department and SFA performance plans. It is therefore important that default rates be accurate.

12-Hour Rule

Our review of the University of Phoenix's management of student financial assistance programs found that the university's definition of an academic year for its undergraduate programs did not satisfy the "12-Hour Rule." The 12-Hour Rule, found in 34 CFR Section 668.2(b), requires an institution's undergraduate programs to contain the equivalent of at least 360 instructional hours per academic year. Because the university did not meet the conditions specified by SFA for including study group meetings as instructional hours, the university's academic year only provided 180 instructional hours. As a result, the university disbursed at least $50.6 million in Federal Family Education Loan Program (FFELP) funds and $4 million in Pell Grant funds to students in excess of the amounts they were eligible to receive.

UNIVERSITY SHOULD REFUND $54.6 MILLION

We recommended that the Chief Operating Officer for SFA require the University of Phoenix to immediately establish an academic year for its undergraduate programs that satisfies the requirements of the 12-Hour Rule. We also recommended that SFA require the university to return $50.6 million in FFELP funds and $4 million in Pell Grant funds.

The university disagreed with the findings. The Department and the university negotiated a settlement agreement to resolve them. The Department used its estimated loss formula to determine the government's loss as a result of the ineligible loans, and negotiated the remaining liability to approximately $6.4 million, including interest. Under the terms of the agreement, the university must repay $6 million plus interest to the Department over three years ($1.5 million was received on the date of settlement). The university also must provide that study group meetings take place at sites conducive to learning and track attendance.

85/15 Rule

In 1998, the OIG began a project to assess the implementation of the "85/15 [now 90/10] Rule" since it became effective (see *Semiannual Report No. 37*, page 8; see also *Semiannual Report No. 38*, page 9). The rule requires a proprietary institution to notify the Department if it fails to obtain at least 15 (now 10) percent of its revenue from non-Title IV program funds.

ED NEEDS TO PROVIDE GUIDANCE TO SCHOOLS

This period we completed the 85/15 project. Our memorandum advised the Chief Operating Officer of SFA that while ED has taken steps to clarify amounts that institutions may include in their revenue percentage calculation for Title IV programs, the Department still needs to provide guidance on amounts to include from the Perkins Loan program. We also identified other areas where SFA could take additional steps to ensure that institutions properly calculate non-Title IV revenue percentages and better utilize the revenue information for monitoring the eligibility of proprietary institutions.

"Dear Certified Public Accountant" Letter

This period we issued a Dear Certified Public Accountant (CPA) letter (CPA-99-02, dated November 1, 1999) on the 85/15 (now 90/10) percent revenue test, to practitioners performing financial statement audits of proprietary institutions. The letter provided guidance for practitioners on how to evaluate institutional loans and institutional scholarships on other than the cash basis of accounting.

Our letter followed the Department's issuance of Dear Partner Letter GEN 99-33 informing the education community of the enforcement policy it would follow with respect to institutional loans and scholarships until the Department's new regulations go into effect on July 1, 2000. In the letter, the Department said that with respect to valid institutional loans and scholarships, absent unusual circumstances, it did not intend to exercise its enforcement authority against institutions that rely on these loans and scholarships as non-federal revenue solely on the grounds that the loans and scholarships fail to comply with cash-basis accounting requirements.

Audits of Institutional Compliance with 85/15 Rule

We also issued audit reports this period on three institutions' compliance with the 85/15 rule. In each case, we found that the institution — Capital City Trade and Technical School, Inc., Austin, Texas; Hallmark Institute of Aeronautics, San Antonio, Texas; and Southern Careers Institute (SCI), Austin, Texas — did not qualify as an eligible Title IV institution during the audit period, because it received more than 85 percent of its revenue from Title IV sources.

Both Capital City and Hallmark disagreed with our conclusion that they did not comply with the 85 Percent Rule. SCI had not met the 85 (90) Percent Rule primarily because it included a portion of its institutional scholarships in non-Title IV cash revenue. After we completed our work at SCI, the Department notified schools that, with respect to valid institutional scholarships, "...absent unusual circumstances, [it did] not intend to exercise its enforcement authority against institutions that count...scholarships as revenue solely on the grounds that the...scholarships fail to comply with cash basis accounting requirements."

Investigation Brings Criminal Asset Forfeiture Charge

In addition, OIG investigative efforts resulted in a superseding indictment with a charge of criminal asset forfeiture this period against school officials who allegedly misrepresented the school's compliance with the 85/15 rule. The indictment alleged that the owner and president and the vice president of Emory College of Puerto Rico made material misrepresentations to a certified public accountant and the Department of Education, claiming that Emory College was in compliance with the 85/15 rule. The indictment charged that as a result of these statements and misrepresentations, the defendants illegally requested $3,150,309, and received $2,485,728, in federal student financial assistance funds. The defendants were also charged with failing to refund $130,260 in SFA funds.

Foreign School Project

Our last semiannual report discussed our concern with the Federal Family Education Loan Program's vulnerability to fraud by individuals who falsely claim enrollment in foreign schools (*Semiannual Report No. 39*, page 8). This project, an investigative initiative begun in 1998 (see

Semiannual Report No. 37, page 5) has had substantial results. However, the underlying systemic weaknesses regarding foreign school participation in the FFELP still exist.

PROSECUTIVE ACTIONS THIS PERIOD

We had 14 individuals in foreign-school cases with prosecutive actions this period. Some of the actions are highlighted below.

- An individual pled guilty to submitting 19 fraudulent student loan applications claiming enrollment in foreign schools (see *Semiannual Report No. 39*, page 8). The investigation found that while incarcerated and on federal supervised release for a similar scheme, the defendant submitted about 50 additional fraudulent loan applications totaling more than $900,000 by falsely claiming enrollment at Mexican medical schools. About twenty-six of the loans totaling about $400,000 were disbursed to the defendant. The plea included a criminal asset forfeiture count requiring forfeiture of $159,840.

- Four persons were indicted for conspiracy in obtaining or attempting to obtain almost $200,000 in federal student loans by falsely claiming attendance at a Costa Rica medical school. The indictment included a count for submission of fraudulent disability certifications to three guaranty agencies to have $82,000 of the fraudulently obtained loans discharged.

- Four persons were indicted and pled guilty to submitting fraudulent loan applications that falsely certified that they would be attending the American University of Paris. The defendants obtained $63,360 as a result of their fraud.

- Two family members were indicted for obtaining $17,760 in federal loans for fraudulently claimed enrollment at the Le Cordon Bleu Cooking School in London, England.

- A physician in San Juan, Puerto Rico, was sentenced to four months of home confinement and ordered to pay restitution of $55,500. Between July 1994 and May 1997, the physician falsely claimed attendance at a school in Mexico to fraudulently receive $55,500 in federal loans.

CLEARINGHOUSE PILOT PROJECT TO VERIFY ENROLLMENT IN FOREIGN SCHOOLS

In response to our recommendations on foreign school concerns, the Chief Operating Officer, SFA, proposed to OIG that the National Student Loan Clearinghouse could be used as a mechanism for enrollment verification for students seeking and receiving loans to attend foreign schools.

The Department and OIG staff visited the Clearinghouse offices and had two Clearinghouse officials come to the OIG to demonstrate their system. We believe the Clearinghouse could provide the services we recommend: up-front verification of student enrollment in a foreign school and verification of a student's status thereafter. Student Financial Assistance must ensure that foreign schools use the Clearinghouse, or another equivalent mechanism, and obtain the cooperation of the guaranty agencies, as well.

The Department has indicated that it is developing a pilot project between the foreign institutions, the guaranty agencies, and the Clearinghouse. The project will seek to determine if up-front verification before funds are disbursed to individuals claiming enrollment at foreign schools can be made, and if continuing verification of the student's status can be provided.

Patterns of Fraud

Our last semiannual report (*Semiannual Report No. 39*, page 8) discussed OIG investigations that disclosed patterns of fraud against the Department's loan and grant programs. The most common fraud schemes this period involved ineligible or non-existent borrowers, many of whom falsified applications and other documents to obtain student aid funds to which they or their institutions were not entitled. Some of these individuals falsely claimed disability; some concealed prior defaults; some falsely certified applications for friends and family members who were not students; and some made false representations to obtain funds for students who did not attend an eligible campus.

FRAUDULENT DEATH AND DISABILITY DISCHARGES

A federal grand jury in the Middle District of Florida indicted a physician on five counts of mail fraud and one count of SFA fraud. A joint ED/OIG and U.S. Postal Inspection Service investigation developed evidence that the physician submitted false disability claims stating that he and his brother were house-confined or wheelchair-bound. OIG agents surveilled the brothers riding bicycles and swimming at the beach. Investigation also revealed that the disability claims were certified by a non-existent physician, and were often accompanied by letters from a non-existent attorney.

Another individual was sentenced to six months home detention, five years probation, and was ordered to pay restitution of $37,743 for misrepresenting his condition to his doctor to falsely obtain a disability discharge of his five student loans.

INVESTIGATIVE EFFORTS CONTINUE AND SHOW RESULTS

We continue in our efforts to identify fraudulent claims. In addition to other methods, we are pursuing a computer match with the Social Security Administration to determine current earnings for individuals who had loans discharged due to death or disability.

During this period, OIG investigative work on fraudulent disability discharges resulted in loans with a value of more than $1 million being reinstated by the holders of the loans, either the Department or a number of guaranty agencies.

Concealment of Prior Defaults

OIG cases have revealed that individuals use false identities to conceal prior defaults that would make them ineligible for additional student financial assistance.

FORMER LAW STUDENT INDICTED

A former law student was indicted in Indiana in connection with her fraudulent receipt of more than $30,000 in federal funds. Our investigation developed evidence that from approximately December 1981 through December 1986, the individual was enrolled at Ball State University (BSU), Muncie, Indiana under two different names. The subject received two student loans at BSU, both of which were in default by December 1987.

SEMINARY STUDENT PLEADS GUILTY

A student at Wesley Theological Seminary in Washington, DC was sentenced for fraudulently using multiple Social Security numbers to secure $29,500 in student loans for which he was not eligible because he concealed that he had previously defaulted on a $2,400 student loan in the past. He was sentenced to eight months home detention and five years probation, and was ordered to pay restitution of $29,500.

Fraud by Individuals in Trust Positions at Recipient Institutions and by Owners of Recipient Institutions

Investigative efforts continue to identify fraud by individuals in trust positions at recipient institutions. These school owners or school officials either obtained federal funds by false means or attempted to retain unearned federal funds by failure to refund. Some of the cases this period involving school officials follow.

SIGNIFICANT CASES THIS PERIOD

- A former financial aid director at Middle Tennessee State University (MTSU), Murfreesboro, Tennessee, pled guilty to official misconduct and theft of more than $10,000. Our investigation revealed that he had obtained more than $250,000 in Federal Family Education Loans on behalf of himself and several family members to which they were not entitled. He concealed the loans from the university, as well as state and federal officials, by not entering the loans into MTSU's loan tracking system. He further concealed the loans by picking up the loan checks directly from the banks that issued them. The subject was ordered to pay restitution of $10,400 for scholarship funds that he illegally received from MTSU and repay more than $250,000 in illegally received student loans.

- Two school owners were indicted for operating an ineligible campus of the American Weld Testing Schools in Pasadena and Beaumont, Texas. The Beaumont campus was not Title IV eligible; however, allegedly more than $1 million in federal aid was disbursed there by processing the aid through the Pasadena campus.

- A school owner in Lexington, Kentucky was indicted for allegedly misapplying more than $258,000 by funneling financial aid for her four ineligible campuses through her one eligible campus.

- The owner of Cabot College in National City, California was sentenced to 10 months of incarceration and ordered to pay $127,000 in restitution for failure to refund unearned funds obtained from the federal student financial assistance programs.

- The former owner of the Midwest Career College in Indianapolis, Indiana was sentenced to 41 months incarceration and ordered to make restitution of $205,000 for obtaining Pell Grants for students who did not attend the school and for failure to refund the unearned grants.

- The former director of admissions at Lincoln Technical Institute in Oak Lawn, Illinois was sentenced to 21 months incarceration and ordered to pay $123,519 in restitution. The director had falsified high school diplomas and GED certificates for students who did not have them, and ordered other admission representatives under his supervision to do the same.

- A school director for the Travel and Trade Career Institute in Orange, California was sentenced to 10 months of incarceration and ordered to pay restitution of $83,000. The director drew down Pell Grants for students who did not exist.

- Following an 11-week trial and guilty verdict by a New York federal jury, four defendants were sentenced for their roles in a massive Pell fraud scheme. The defendants submitted falsified

information to obtain Pell grants for ineligible students and for nonexistent programs. They were ordered to pay restitution of $11 million to the Department and must serve varying periods of incarceration ranging from 30 months to 78 months.

Other OIG Initiatives

NONFEDERAL AUDITS

Participants in Department programs are required to submit annual financial statements and compliance audits performed by independent public accountants (IPAs). The various types of audits the Department receives include proprietary school/school servicer audits; lender/lender servicer audits; guaranty agency audits; and Office of Management and Budget Circular A-133 Single Audits. The Inspector General Act directs the Inspector General to take appropriate steps to assure that work performed by nonfederal auditors complies with federal government auditing standards. The OIG publishes audit guidance specific to Department programs to assist IPAs in performing independent audits.

Quality Reviews of Nonfederal Audits

This period we performed 54 quality control reviews (QCRs) of audits performed by IPAs.

RESULTS OF QCRS

Based on our reviews, we determined:

- 66 percent were acceptable or contained only minor audit deficiencies;
- 28 percent were substandard, requiring corrective action by the auditor; and
- 6 percent contained significant inadequacies preventing the Department from relying upon these audits.

REFERRALS OF IPAS

For audits containing significant inadequacies and for other serious violations of professional standards, we made five referrals to the American Institute of Certified Public Accountants and/or the appropriate State Board of Accountancy for possible disciplinary action.

Publication of Audit Guides

This period we issued two audit guides to be used by IPAs. The two guides issued this period are for: 1) *Audits of Federal Student Financial Aid Programs at Participating Institutions and Institution Servicers* (January 2000); and 2) *Audits of Guaranty Agency Servicers Participating in the Federal Family Education Loan Program* (March 2000).

P.L. 95-452 REPORTING REQUIREMENTS

Sections 5(a)(1) and 5(a)(2) Significant Problems, Abuses, and Deficiencies

Management Challenges 1, 15

Investigation Services Cumulative Prosecutive Actions 24

Section 5(a)(3) Recommendations Described in Previous Semiannual Reports on Which Corrective Action Has Not Been Completed 16

Section 5(a)(4) Matters Referred to Prosecutive Authorities

Investigation Services Cumulative Prosecutive Actions 24

Statistical Profile 29

Sections 5(a)(5) and 6(b)(2) Summary of Instances Where Information Was Refused or Not Provided*

Section 5(a)(6) Listing of Audit Reports

ED/OIG Reports on Education Department Programs and Activities 18

Section 5(a)(7) Summary of Significant Audits

Management Challenges 1, 15

Section 5(a)(8) Audit Reports Containing Questioned Costs

Inspector General Issued Reports With Questioned Costs 20

Section 5(a)(9) Audit Reports Containing Recommendations That Funds Be Put to Better Use

Inspector General Issued Reports With Recommendations for Better Use of Funds 21

Section 5(a)(10) Summary of Unresolved Audit Reports Issued Prior to the Beginning of the Reporting Period

Unresolved Reports Issued Prior to October 1, 1999 22

Section 5(a)(11) Significant Revised Management Decisions*

Section 5(a)(12) Significant Management Decisions with Which OIG Disagreed*

*We have no instances to report.

MANAGEMENT CHALLENGES

1. The Department must address long-standing problems with financial management.

2. Year 2000 remains a management challenge for the Department.*

3. The Department must improve its security posture, policy, and plans for its systems.

4. The implementation of Student Financial Assistance's Modernization Blueprint and Performance Plan presents unique challenges.

5. The Department's goal of "paperless" systems for SFA fund delivery creates new opportunities for efficiency and requires effective controls to ensure accountability, security, and legal enforcement.

6. The Department needs to fully implement the Clinger-Cohen Act.

7. Obtaining quality data to measure the performance of Department programs and to meet the reporting requirements of the Results Act presents significant challenges.

8. Balancing compliance monitoring and technical assistance presents a management challenge for elementary and secondary education programs.

9. The Department must continue to work with the Internal Revenue Service to implement a data match to ensure that SFA recipients accurately report income to qualify for financial aid.

* The OIG no longer considers Year 2000 to be a management challenge for the Department.

RECOMMENDATIONS DESCRIBED IN PREVIOUS SEMIANNUAL REPORTS ON WHICH CORRECTIVE ACTION HAS NOT BEEN COMPLETED

Section 5(a)(3) of the Inspector General Act requires a listing of each report resolved before the commencement of the reporting period for which management has not completed corrective action. The reports listed below are OIG internal and nationwide audit reports and management improvement reports.

REPORT NUMBER	AUDITEE/TITLE	DATE RESOLVED	TOTAL MONETARY FINDINGS	SEMIANNUAL REPORT NO.	PAGE
OFFICE OF SPECIAL EDUCATION AND REHABILITATIVE SERVICES					
03-50201	*COORDINATION AND COLLABORATION WITHIN THE OFFICE OF SPECIAL EDUCATION AND REHABILITATIVE SERVICES TO BETTER SERVE CUSTOMERS AND MANAGE PROGRAMS*	*09/30/97*	*	*34*	*18*
OFFICE OF POSTSECONDARY EDUCATION					
04-40100	*HELPING TO ASSURE EQUALIZED EDUCATIONAL OPPORTUNITIES WITH HEA, TITLE III INSTITUTIONAL AID FUNDS - GLOBAL PERFORMANCE MEASURES NEEDED*	*08/31/95*	*	*31*	*11*
17-30305	*ANNUAL INTEREST GRANTS: IMPROVING THE PROCESS FOR PAYING THE REMAINING GRANTS*	*02/29/96*	*5,025,272*	*31*	*14*
04-60001	*PROCESS ENHANCEMENTS IN THE HEA, TITLE III, INSTITUTIONAL AID PROGRAM WOULD INCREASE PROGRAM EFFICIENCY, DESPITE LIMITED RESOURCES*	*08/31/96*	*	*32*	*09*
STUDENT FINANCIAL ASSISTANCE					
11-90040	*THE INSTITUTIONAL ELIGIBILITY PROCESS DOES NOT PROVIDE ADEQUATE ASSURANCE THAT ONLY ELIGIBLE SCHOOLS PARTICIPATE IN THE TITLE IV PROGRAMS*	*09/30/93*	*482,000*	*22*	*6*
*92-05***	*ED NEEDS TO STRENGTHEN STUDENT LOAN CURE PROCEDURES*	*09/30/93*	*154,000,000*	*24*	*12*
17-30302	*FINANCIAL AUDIT: FEDERAL FAMILY EDUCATION LOAN PROGRAM'S FINANCIAL STATEMENTS FOR FISCAL YEARS 1993 AND 1992*	*10/31/94*	*	*29*	*16*
05-50008	*EFFECTIVENESS AND EFFICIENCY OF DEBT COLLECTION SERVICE - AREAS RELATED TO INTERNAL OPERATIONS*	*04/30/96*	*	*32*	*12*
05-80011	*INSTITUTIONAL PARTICIPATION AND OVERSIGHT SERVICE HAS OPPORTUNITIES TO IMPROVE THE RECERTIFICATION PROCESS*	*05/31/99*	*	*37*	*16*
OFFICE OF THE CHIEF FINANCIAL OFFICER					
11-00333	*GREATER EMPHASIS NEEDED TO DEOBLIGATE UNEXPENDED CONTRACT FUNDS AND CLOSE OUT CONTRACTS ON TIME*	*03/31/94*	*7,500,000*	*26*	*17*
17-40302	*FINANCIAL STATEMENT AUDIT U.S. DEPARTMENT OF EDUCATION FEDERAL FAMILY EDUCATION LOAN PROGRAM FOR THE YEARS ENDED SEPTEMBER 30, 1994 AND 1993*	*08/31/95*	*	*31*	*12*
17-48320	*FINANCIAL STATEMENT AUDIT U.S. DEPARTMENT OF EDUCATION FEDERAL DIRECT STUDENT LOAN PROGRAM FOR THE YEAR ENDED SEPTEMBER 30, 1994*	*09/30/95*	*	*30*	*20*
17-40303	*THE REPORT OF INDEPENDENT ACCOUNTANTS ON THE U.S. DEPARTMENT OF EDUCATION FISCAL YEAR 1995 DEPARTMENT-WIDE FINANCIAL STATEMENTS*	*03/31/97*	*	*33*	*14*

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REPORT NUMBER	AUDITEE/TITLE	DATE RESOLVED	TOTAL MONETARY FINDINGS	SEMIANNUAL REPORT NO.	PAGE
OFFICE OF THE CHIEF FINANCIAL OFFICER (cont.)					
17-60002	THE REPORT OF INDEPENDENT ACCOUNTANTS ON THE U.S. DEPARTMENT OF EDUCATION FISCAL YEAR 1996 DEPARTMENT-WIDE FINANCIAL STATEMENTS	05/31/99	*	35	19
17-70002	U.S. DEPARTMENT OF EDUCATION'S FISCAL YEAR 1997 FINANCIAL STATEMENTS AND ACCOMPANYING NOTES	05/31/99	*	37	13
OFFICE OF THE CHIEF INFORMATION OFFICER					
11-70007	THE STATUS OF EDUCATION'S IMPLEMENTATION OF THE CLINGER-COHEN ACT	08/31/99	*	36	19

* Non-monetary findings only
** Management improvement report

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ED/OIG REPORTS ON EDUCATION DEPARTMENT PROGRAMS AND ACTIVITIES

(October 1, 1999 – March 31, 2000)

Section 5(a)(6) of the Inspector General Act requires a listing of each report completed by OIG during the reporting period. A total of 21 audits were completed by ED/OIG auditors. These reports are listed below. In addition, we issued 10 alternative products, which include management information reports, inspection reports, and special projects.

ACN	AUDITEE/REPORT TITLE	STATE	ISSUED	QUESTIONED COSTS (excluding unsupported)	UNSUPPORTED COSTS	BETTER USE OF FUNDS
OFFICE OF ELEMENTARY AND SECONDARY EDUCATION						
A04-90008	COMBINING FUNDS IN SCHOOLWIDE PROGRAMS	DC	MAR-00	•		
OFFICE OF THE CHIEF FINANCIAL OFFICER						
A02-90001***	THE ARIZONA DEPARTMENT OF EDUCATION'S IMPLEMENTATION OF THE SINGLE AUDIT ACT AMENDMENTS OF 1996	AZ	FEB-00	•		
STUDENT FINANICAL ASSISTANCE						
A05-90002	AUDIT OF THE ILLINOIS STUDENT ASSISTANCE COMMISSION'S ADMINISTRATION OF THE FEDERAL FAMILY EDUCATION LOAN PROGRAMS	IL	DEC-99	17,084		
A05-90053	ST. AUGUSTINE COLLEGE'S ADMINISTRATION OF THE FEDERAL STUDENT FINANCIAL ASSISTANCE PROGRAMS	IL	MAR-00	33,994		
A06-70006	CHANGE IN THE COMPUTATION OF COHORT DEFAULT RATES WOULD MAKE RATES MORE ACCURATE	DC	MAR-00			4,600,000
A06-80008	AUDIT OF CAPITAL CITY TRADE AND TECHNICAL SCHOOL, INC. COMPLIANCE WITH THE 85 PERCENT RULE	TX	FEB-00	2,032,581		
A06-80013	HALLMARK INSTITUTE OF AERONAUTICS' COMPLIANCE WITH THE 85 PERCENT RULE	TX	MAR-00	5,204,586		
A06-90008	SOUTHERN CAREERS INSTITUTE'S COMPLIANCE WITH THE 85 PERCENT RULE	TX	MAR-00	•		
A06-90011	REVIEW OF COLLECTION ACTIVITIES AT UNGER AND ASSOCIATES	TX	FEB-00	833,897		
A09-70022	UNIVERSITY OF PHOENIX'S MANAGEMENT OF STUDENT FINANCIAL ASSISTANCE PROGRAMS	AZ	MAR-00	54,687,000		
A09-90001	CORINTHIAN COLLEGES, INC., NON-TITLE IV REVENUE PERCENTAGE CALCULATIONS	CA	FEB-00	•		
A09-90011	PLATT COLLEGE – SAN FRANSCISCO ADMINISTRATION OF TITLE IV PROGRAMS	CA	FEB-00	191,721		
N06-90010	INSPECTION OF PARKS COLLEGE'S COMPLIANCE WITH STUDENT FINANCIAL ASSISTANCE REQUIREMENTS	NM	FEB-00	169,390		
A04-90016***	REVIEW OF SOUTH CAROLINA STATE EDUCATION ASSISTANCE AUTHORITY'S YEAR 2000 READINESS	SC	NOV-99	•		
S04-90018***	REVIEW OF KENTUCKY HIGHER EDUCATION ASSISTANCE AUTHORITY'S YEAR 2000 READINESS	KY	NOV-99	•		

ACN	AUDITEE/REPORT TITLE	STATE	ISSUED	QUESTIONED COSTS (excluding unsupported)	UNSUPPORTED COSTS	BETTER USE OF FUNDS
STUDENT FINANCIAL ASSISTANCE (cont.)						
*A05-90044****	*REVIEW OF NEW YORK STATE HIGHER EDUCATION SERVICES CORPORATION'S YEAR 2000 READINESS*	*NY*	*OCT-99*	*		
*A05-90047****	*REVIEW OF MICHIGAN GUARANTY AGENCY'S YEAR 2000 READINESS*	*MI*	*OCT-99*	*		
*A05-90048****	*REVIEW OF EFG TECHNOLOGIES, INC.'S YEAR 2000 READINESS*	*NC*	*NOV-99*	*		
S09-90010	*COMPLETION OF OIG'S 85 PERCENT RULE PROJECT*	*DC*	*MAR-00*	*		
OFFICE OF EDUCATIONAL RESEARCH AND IMPROVEMENT						
A11-90014	*REVIEW OF NCES'S YEAR 2000 READINESS PLAN*	*DC*	*NOV-99*	*		
OFFICE OF THE CHIEF FINANCIAL OFFICER						
A05-90045	*AUDIT OF THE STUDENT SUPPORT SERVICES PROJECT ADMINISTERED BY MARIAN COLLEGE, FOND DU LAC, WISCONSIN*	*WI*	*MAR-00*	*77,959*		
A07-90003	*AUDIT OF THE CENTRAL PROCESSING SYSTEM CONTRACT*	*IA*	*MAR-00*	*90,600*		
A07-90017	*AUDIT OF COMPLIANCE WITH COST ACCOUNTING STANDARDS FOR TRAVEL – NATIONAL COMPUTER SYSTEMS, IOWA CITY, IA*	*IA*	*MAR-00*	*		
A11-90013	*REVIEW OF SECURITY POSTURE, POLICIES AND PLANS*	*DC*	*FEB-00*	*		
S03-A0006	*AUTHENTICATION OF U.S. DEPARTMENT OF EDUCATION'S DETAILED ACCOUNTING OF FISCAL YEAR 1999 DRUG CONTROL FUNDS, DATED JANUARY 27, 2000*	*DC*	*FEB-00*	*		
A17-80006 (originally S17-80006)	*FISCAL YEAR 1998 ANNUAL FINANCIAL STATEMENTS*	*DC*	*NOV-99*	*		
A17-90018 (originally S17-90018)	*STUDENT FINANCIAL ASSISTANCE FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 1999*	*DC*	*FEB-00*	*		
A17-90019 (originally S17-90019)	*DEPARTMENT'S ANNUAL FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 1999*	*DC*	*FEB-00*	*		
S17-90009	*INFORMATION REPORT ON DATA ACCUMULATED BY SEAS AND REPORTED TO ED: ESEA/TITLE I AND PERKINS VOCATIONAL EDUCATIONAL PROGRAMS*	*DC*	*MAR-00*	*		
*A17-90019***	*AGREED-UPON PROCEDURES REPORT FOR FACTS VERIFICATION*	*DC*	*MAR-00*	*		
OFFICE OF POSTSECONDARY EDUCATION						
A07-80027	*AUDIT OF CREIGHTON UNIVERSITY'S ADMINISTRATION OF ITS FEDERAL TRIO PROJECTS*	*NE*	*MAR-00*	*372,399*		

* Non-monetary
** Additional report from ACN A17-90019 (Department financial statements)
*** Management information report
A Audit
N Inspection report
S Special projects

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INSPECTOR GENERAL ISSUED REPORTS WITH QUESTIONED COSTS[1]

		NUMBER	QUESTIONED	UNSUPPORTED[2]
A.	For which no management decision has been made by the commencement of the reporting period (as adjusted)	31	$ 162,502,894	$ 42,999,771
B.	Which were issued during the reporting period	10	63,535,821	0
	Subtotals (A + B)	41	$ 226,038,715	$ 42,999,771
C.	For which a management decision was made during the reporting period	6	$ 49,864,020	$ 26,797,552
	(i) Dollar value of disallowed costs		24,224,614	23,572,341
	(ii) Dollar value of costs not disallowed		25,639,406	3,225,211
D.	For which no management decision has been made by the end of the reporting period	35	$ 176,174,695	$ 16,202,219
E.	For which no management decision was made within six months of issuance	27	$ 76,813,426	$ 10,171,709

[1] *None of the audits reported in this table were performed by the Defense Contract Audit Agency.*

[2] *Included in questioned costs.*

INSPECTOR GENERAL ISSUED REPORTS WITH RECOMMENDATIONS FOR BETTER USE OF FUNDS[1]

	NUMBER	DOLLAR VALUE
A. For which no management decision has been made by the commencement of the reporting period (as adjusted)	4	$ 49,410,180
B. Which were issued during the reporting period	1	4,600,000
Subtotals (A + B)	5	$ 54,010,180
C. For which a management decision was made during the reporting period	0	0
(i) Dollar value of recommendations that were agreed to by management	0	0
(ii) Dollar value of recommendations that were not agreed to by management	0	0
D. For which no management decision has been made by the end of the reporting period	5	$ 54,010,180
E. For which no management decision was made within six months of issuance	4	$ 49,410,180

[1] *None of the audits reported in this table were performed by the Defense Contract Audit Agency.*

UNRESOLVED REPORTS ISSUED PRIOR TO OCTOBER 1, 1999

Section 5(a)(10) of the Inspector General Act requires a listing of each report issued before the commencement of the reporting period for which no management decision has been made by the end of the reporting period.

REPORT NUMBER	AUDITEE/TITLE	ST	DATE ISSUED	TOTAL MONETARY FINDINGS	REASONS OVERDUE	PROJECTED MANAGEMENT DECISION	SEMIANNUAL REPORT NO.	PAGE NO.
	OFFICE OF ELEMENTARY AND SECONDARY EDUCATION							
02-56113	VIRGIN ISLANDS DEPARTMENT OF EDUCATION	VI	02/17/95	10,375,000	05	***	30	17
02-50200	THE PUERTO RICO DEPARTMENT OF EDUCATION MUST INSTITUTE A TIME DISTRIBUTION SYSTEM	PR	11/14/97	*	05	***	36	13
	STUDENT FINANCIAL ASSISTANCE							
09-10005	CALIFORNIA STUDENT AID COMMISSION	CA	09/10/93	41,100,000	01	***	27	17
09-10007	WESTERN TRUCK SCHOOL	CA	09/10/92	8,834,503	01	***	25	78
07-23545	MISSOURI STATEWIDE	MO	04/01/93	1,048,768	01	***	**	
09-33114	STATE OF CALIFORNIA	CA	12/24/93	4,191,032	01	***	28	18
07-33123	MISSOURI STATEWIDE	MO	03/07/94	187,530	01	***	**	
05-30010	NORTHSTAR GUARANTEE INCORPORATED	MN	08/16/94	619,287	01	***	29	31
06-50014	EL PASO COMMUNITY COLLEGE	TX	11/06/95	*				
04-60147	REVIEW OF SELECTED ASPECTS OF THE KENTUCKY HIGHER EDUCATION ASSISTANCE AUTHORITY'S ADMINISTRATION OF THE FEDERAL FAMILY EDUCATION LOAN PROGRAM	KY	02/18/97	1,263,251	01	***	34	9
06-70005	PROFESSIONAL JUDGEMENT AT YALE UNIVERSITY	CT	03/13/98	5,469	01	***	36	18
07-70002	INCOME CONTINGENT REPAYMENT: COST ATTRIBUTION AND BORROWER STUDIES COULD ASSIST TO MEET OBJECTIVES OF FEDERAL FINANCIAL REPORTING AND PROGRAM MANAGEMENT	DC	06/01/98	*	01	04/30/00	37	19
06-70009	PROFESSIONAL JUDGEMENT AT THE UNIVERSITY OF COLORADO	CO	07/17/98	15,082	01	***	37	17
09-70015	ASSOCIATED TECHNICAL COLLEGE (ATC) ELIGIBILITY OF INSTITUTIONS TO PARTICIPATE IN TITLE IV PROGRAMS AND OTHER ISSUES	CA	09/09/98	8,600,000	01	***	37	16
09-80023	ACADEMY PACIFIC BUSINESS & TRAVEL COLLEGE ELIGIBILITY TO PARTICIPATE IN TITLE IV PROGRAMS	CA	12/21/98	6,649,689	01	***	38	20
N04-70011	INSPECTION OF TITLE IV, HEA PROGRAMS ADMINISTERED BY CAREER TRAINING INSTITUTE, ORLANDO, FLORIDA	FL	12/30/98	67,977			38	22
02-80005	UNIVERSIDAD INTERAMERICANA DE PUERTO RICO NEEDS TO IMPROVE ITS ADMINISTRATION OF TITLE IV PROGRAMS	PR	07/23/99	1,268,256	01	***		
04-80009	DIRECT LOAN CONSOLIDATION PROCESS FOLLOW-UP	DC	05/28/99	*	***	***		
06-80001	IMPROVING THE PROCESS FOR FORGIVING STUDENT LOANS	DC	06/07/99	35,000,000	01	06/30/00	39	06

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REPORT NUMBER	AUDITEE/TITLE	ST	DATE ISSUED	TOTAL MONETARY FINDINGS	REASONS OVERDUE	PROJECTED MANAGEMENT DECISION	SEMIANNUAL REPORT NO.	PAGE NO.
STUDENT FINANCIAL ASSISTANCE (cont.)								
06-80011	*TEXAS CAREERS' COMPLIANCE WITH THE 85 PERCENT RULE*	*TX*	*07/22/99*	*2,021,119*	*01*	***		
06-80012	*COLLEGE SYSTEMS, INC. – OKLAHOMA*	*OK*	*08/09/99*	*1,246,835*	*01*	***		
09-80029	*REVIEW OF PACIFIC TRAVEL AND TRADE SCHOOL*	*CA*	*06/11/99*	*11,969,719*	*01*	***		
11-90004	*REVIEW OF THE GRANT ADMINISTRATION AND PAYMENT SYSTEM (GAPS) CONFIGURATION MANAGEMENT PROCESS*	*DC*	*05/07/99*	*	*01*		*39*	*04*
OFFICE OF VOCATIONAL AND ADULT EDUCATION								
07-80004	*STATE OF MISSOURI SUSTAINABILITY OF THE SCHOOL-TO-WORK OPPORTUNITIES PROGRAM*	*MO*	*11/30/98*	*	*04*	***	*38*	*19*
OFFICE OF BILINGUAL EDUCATION AND MINORITY LANGUAGES AFFAIRS								
04-60152	*REVIEW OF MONITORING CONTROLS USED TO ENSURE FULFILLMENT OF TITLE VII BILINGUAL EDUCATION GRANT PROGRAM OBJECTIVES*	*DC*	*06/30/97*	*	*01*	***	*35*	*17*
OFFICE OF THE CHIEF FINANCIAL OFFICER								
07-80018	*TITLE IV WIDE AREA NETWORK CONTRACT NATIONAL COMPUTER SYSTEMS*	*IA*	*05/06/99*	*360,080*	***	***	*39*	*04*
11-80013	*REVIEW OF GAPS SECURITY*	*DC*	*09/30/98*	*	*01*	***	*37*	*12*

NOTES

* Non-monetary findings only
** Not individually written up
*** Information not provided by Department principal operating component

REASON CODES FOR REPORTS OVER SIX MONTHS OLD

01 - Administrative delays
02 - Delay in receiving auditee comments or additional information from auditee
03 - Delay in receiving additional information from non-federal auditor
04 - Lack of staff
05 - Cooperative Audit Resolution and Oversight Initiative (CAROI) pilot state.

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Appendix 7

INVESTIGATION SERVICES
CUMULATIVE PROSECUTIVE ACTIONS

DEFENDANT/ SUBJECT	INDICTED/ INFORMATION	CONVICTED	SENTENCED	CIVIL MATTERS	ADJUDICATED VALUE
SCHOOL CASES					
Barnes, Richard	■	■	X		$123,520
Campbell, Mary Lou	X				
Cockrum, Helen	X	X			
Cox, Wayne	■	X			$127,000
Cerfaratti-Diaz, Carole	■	■	X		$860,000
Elbaum, Jacob et. al.	■	■	X		$11,060,449
Huggins, Jackie	X				
Lally, Thomas	■	X			
Miller, Kaylne	X	X			
Nelson, Steven	■	■	X		$205,000
Rose, Regina	X	X			
Strain, Daniel	X				
Trimble, Donald	X	X			
Wrenn, Robert	X	X	X		$200,400
Yun, Anna	X	X			
		Total Value School Cases:			**$12,576,369**
CONSULTANT CASES and CLIENT CASES					
Baska, Michael				X	$3,386
Baska, Kathleen				X	$5,020
Brownlee, Benny				X	$6,900
Bryd, Nadine				X	$36,000
Boone, Curtis				X	$3,230
Collins, Archer				X	$12,615

■ = Action reported in previous period.
X = Action reported in current period.

INVESTIGATION SERVICES
CUMULATIVE PROSECUTIVE ACTIONS

DEFENDANT/ SUBJECT	INDICTED/ INFORMATION	CONVICTED	SENTENCED	CIVIL MATTERS	ADJUDICATED VALUE
Collins, Tamka				X	**$6,875**
Crouther, Bobby				X	$8,590
Culp, Karen				X	$22,470
Dixon, Kelly				X	$13,030
Garner, Tamara				X	$6,000
Gilmer, Karriem				X	$7,950
Hall, Latonga				X	$2,156
Heard, Deborah				X	$2,898
Hill, Verlene				X	$4,180
Hopkins, Ebonie				X	$8,946
Johnson, Erica				X	$4,960
Magee, Melissa				X	$1,750
Owens, Courtney				X	$1,750
Parham, Medina				X	$6,750
Peake, Leroy				X	$1,725
Rizza, Michael				X	$4,960
San, Keo				X	$3,620
Sawyers, Darryl				X	$12,165
Schwarten, Rebecca				X	$5,660
Smiley, Diona				X	$21,498
Smith, Brice				X	$3,450
Van Sickle, Kelli				X	$2,400
Washington, Cory				X	$7,546
Watson, Courtney				X	$2,581
			Total Value Consultant Cases:		**$231,061**

■ = Action reported in previous period.
X = Action reported in current period.

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INVESTIGATION SERVICES
CUMULATIVE PROSECUTIVE ACTIONS

DEFENDANT / SUBJECT	INDICTED/ INFORMATION	CONVICTED	SENTENCED	CIVIL MATTERS	ADJUDICATED VALUE
FOREIGN STUDY FFEL PROJECT					
Baugh, Milton	■	X			
Brown, Albert	X	X			
Cortez, Conrad	X	X			
Glenn, Lamart	■	■	X		$48,000
Hines, Leonard	X				
Hines, Sharon	X				
Hines, Shawn	X				
Kenney, Juwan	X	X			
Rivera, Jose	■	■	X		$55,000
Villegas, Stephan	■	X			
Wilson, Patrick	X				
		Total Value Foreign Study FFEL Cases:			**$103,000**
NON-SFA CASES					
Huguet, Edmund	X				
McKay, Jimmy	X				
Smith, Roy	X				
Carver, Bruce	X				
SFA RECIPIENT CASES					
Alams, Humphrey	■	X	X		$159,000
Akhtar, Jabir	X				
Braxton, Larry	X	X	X		$83,000
Bright, Edwina	■	X	X		$866
Hines, Shawn	X				

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X = Action reported in current period.

INVESTIGATION SERVICES
CUMULATIVE PROSECUTIVE ACTIONS

DEFENDANT/ SUBJECT	INDICTED/ INFORMATION	CONVICTED	SENTENCED	CIVIL MATTERS	ADJUDICATED VALUE
Imatorbhebhe, Uzezi	X	X	X		$21,248
Mova, Houman	X	X			
Payne, Kenneth	■	X	X		$37,743
Pelsang, Daniel	X				
Perkins, Lisa	X				
Randolph-Vaughan, Cynthia	X				
Sanders, Barbara	X				
Wells, William	■	■	X		$64,010
Williams, Pierre	■	■	■		$29,500
Wilson, Paula	X				
		Total Value SFA Cases:			**$395,365**
CIVIL CASES					
Mejia, Juan				X	$29,000
		Total Value Civil Cases:			**$29,000**
LENDER CASES					
Kroeplin, William	X	X			
Johnson, Gwendolyn	■	■	X		$30,747
		Total Value Lender Cases:			**$30,747**

■ = Action reported in previous period.
X = Action reported in current period.

COLLECTIONS FROM AUDITS AND INVESTIGATIONS

The House Report (H. Rept. 105-635) to accompany H.R. 4274 directs the Inspector General of the Department of Education to submit reports detailing recoveries and savings generated by OIG's work. The following tables reflect that information.

AUDIT

FY	RPTS ISSUED WITH QUEST/UNSUPP	QUEST/UNSUPP RECOMMENDED	RPTS WITH QUEST/UNSUPP RESOLVED	RECOMMENDED QUEST/UNSUPP RESOLVED	MANAGEMENT DECISION	WRITE OFFS ADJUSTMENTS	COLLECTED/ RECOVERED	BALANCE
FY 98	11	$17,011,401	8	$6,162,004	$1,671,959	0	$1,671,959	0
FY 99	11	$69,804,793	5	$68,507,812	$24,156,106	0	$22,215	$24,133,891
FY 00	10	$63,705,211	0	0	$6,000,000	0	$1,600,000	$4,400,000
TOTAL	32	$150,521,405	13	$74,669,816	$31,828,065	0	$3,294,174	$28,533,891

INVESTIGATION

FY	CASES *	FINES, RESTITUTIONS, SETTLEMENTS AND JUDGMENTS	AMOUNT COLLECTED CURRENT PERIOD	AMOUNT COLLECTED PRIOR PERIOD(S)	AMOUNT COLLECTED
FY 98	293	$48,208,055	$78,520	$30,727,089	$30,805,609
FY 99	133	$19,154,906	$24,045	$7,001,533	$7,025,578
FY 00	55	$13,197,931	$6,565	0	6,565
TOTALS	481	$80,560,892	$109,130	$37,728,622	$37,837,752

*Number of cases for which collections were ordered during the fiscal year.

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STATISTICAL PROFILE

October 1, 1999 — March 31, 2000

OIG AUDIT REPORTS ISSUED	21
Questioned Costs	$ 62,701,924
Unsupported Costs	$ 0
Recommendations for Better Use of Funds	$ 4,600,000
OTHER OIG PRODUCTS *(management information reports, special projects, and inspection reports)*	10
OIG AUDIT REPORTS RESOLVED BY PROGRAM MANAGERS	20
Questioned Costs Sustained	$ 117,273
Unsupported Costs Sustained	$ 23,572,341
Additional Disallowances Identified by Program Managers	$ 97,831
Management Commitment to Better Use of Funds	$ 0
INVESTIGATIVE CASE ACTIVITY	
Cases Opened	110
Cases Closed	87
Cases Active at End of Period	336
Cases Referred for Prosecution	51
—Accepted	43
—Declined	8
INVESTIGATION RESULTS	
Indictments/Informations	35[1]
Convictions/Pleas	24[2]
Fines Ordered	$ 1,300
Restitution Payments Ordered	$12,888,720
Civil Settlements (number)	24[3]
Civil Settlements/Judgments	$ 307,911[4]
Savings	$ 671,086[5]

[1] Includes two cases that were not reported in our last semiannual report.
[2] Includes two cases that were not reported in our last semiannual report.
[3] Includes five cases that were not reported in our last semiannual report.
[4] Includes $56,870 that was not reported in our last semiannual report.
[5] Includes $562,775 that was not reported in our last semiannual report.

Please send me the following ED/OIG reports:

___A04-90008	___A06-90008	___S04-90018	___A07-90003	___A17-90019
___A02-90001	___A06-90011	___A05-90044	___A07-90017	___A07-80027
___A05-90002	___A09-70022	___A05-90047	___A11-90013	
___A05-90053	___A09-90001	___A05-90048	___S03-A0006	
___A06-70006	___A09-90011	___S09-90010	___A17-80006	
___A06-80008	___N06-90010	___A11-90014	___A17-90018	
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